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Concise summary of principal findings and conclusions contained in the reports prepared by the Board of Auditors for the General Assembly at its sixty-fifth session

Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly, pursuant to Assembly resolution 47/211, the concise summary of principal findings and conclusions contained in the reports on the audit of the accounts for the financial period ended 31 December 2009, prepared by the Board of Auditors.

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Letters of transmittal

21 July 2010

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(*Signed*) Terence **Nombembe**
Auditor-General of South Africa
Chair, United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York

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Summary

The General Assembly, in its resolution 47/211, invited the Board of Auditors "to report in a consolidated fashion on major deficiencies in programme and financial management and cases of inappropriate or fraudulent use of resources together with the measures taken by United Nations organizations in this regard". The findings and conclusions included in the present summary are mainly those that relate to the common themes identified in the reports addressed to the General Assembly on 16 organizations audited by the Board. The Board addressed other reports to the Security Council and other governing bodies, the details of which are not included in the present report. The detailed findings and related recommendations that relate to a particular organization can be found in the separate audit report on that organization. The list of the organizations audited by the Board appears in annex I.

In the present report, the Board addresses the following general issues: audit reports and opinions; status of implementation of recommendations; status of implementation of the International Public Sector Accounting Standards; after-service health insurance and end-of-service liabilities; financial regulations and rules; national execution modality; procurement and contract management; non-expendable property; and expendable property. The Board also addresses, in the report, significant issues arising from individual reports covering the range of audit thrust areas.

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I. Audit reports and opinions of the Board

1. The Board of Auditors has audited the financial statements and reviewed the operations of the 16 organizations listed in annex I, in accordance with General Assembly resolution 74 (I) of 7 December 1946. The audits were conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto (ST/SGB/2003/7) and the International Standards on Auditing. Those standards require the Board comply with ethical requirements and plan and perform the audits to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

2. The audits were conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position as at 31 December 2009 and the results of operations and cash flows for the biennium then ended, in accordance with the United Nations system accounting standards. This included an assessment as to whether the expenditures recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules of the respective organizations. The audits included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under financial regulation 7.5. The reviews focused primarily on the efficiency of financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the organizations. The Board's audit included various field visits.

4. Arising from these audits, the Board issued short-form reports, which reflected the Board's audit opinions, and long-form reports, which reflected the detailed findings and recommendations of each audit. The long-form reports provided the basis for the preparation of the present concise report and the conclusions set out herein.

5. As described in table 1, for the 16 organizations audited, the Board issued:

(a) Unqualified audit opinions for nine entities (2007: seven entities);

(b) Modified audit reports with one or more emphasis of matter paragraphs for seven entities (2007: nine entities), including one entity that also received a qualified audit opinion.

Table 1
Types of audit opinions issued by the Board for the financial period ended 31 December 2009 compared to 31 December 2007

	2009			2007		
		Modified opinion			Modified opinion	
Organization	*Unqualified opinion*	*Qualified opinion*	*Emphasis of matter*	*Unqualified opinion*	*Qualified opinion*	*Emphasis of matter*
United Nations (Vol. I)	x			x		
International Trade Centre UNCTAD/WTO	x					x
United Nations University	x					x
United Nations Development Programme (UNDP)	x			x		
United Nations Children's Fund (UNICEF)	x			x		
United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA)			x	x		
United Nations Institute for Training and Research (UNITAR)	x			x		
Office of the United Nations High Commissioner for Refugees (UNHCR) (annual audit)			x		x	x[a]
United Nations Environment Programme (UNEP)			x			x
United Nations Population Fund (UNFPA)		x	x[b]			x
United Nations Human Settlements Programme (UN-Habitat)			x			x
United Nations Office on Drugs and Crime	x			x		
International Criminal Tribunal for Rwanda			x			x
International Tribunal for the Former Yugoslavia	x					x
United Nations Joint Staff Pension Fund (UNJSPF)			x	x		
United Nations Office for Project Services (UNOPS)	x					x
Total	**9**	**1**	**7**	**7**	**1**	**9**

[a] The previous audit opinion (2008) of UNHCR (A/64/5/Add.1) was also qualified in respect of national execution expenditure.
[b] The audit opinion for UNFPA was also qualified in respect of national execution expenditure.

6. While the data in the above table relate to distinct organizations, the Board is able to further comment on the overall audit opinions as follows:

(a) As no organization within the Board's portfolio has yet implemented the International Public Sector Accounting Standards (IPSAS), none of these audit opinions are an indication of the success of IPSAS implementation, or the readiness of organizations for immediate IPSAS implementation;

(b) There are no trends to be gleaned from jointly considering all modified audit opinions, as the challenges which led to qualified audit opinions or emphasis of matter paragraphs are usually unique;

(c) There is no clear distinction that can be drawn between the audit results of small or large entities, as well as between regular funded versus voluntary funded organizations.

7. The Board noted, however, that of the seven reports that had modified opinions, four of the reports were modified because of weaknesses in the management of non-expendable property. The Board has maintained an extended focus on the management and disclosure of non-expendable property in recognition of the risk associated with the high values involved as well as in preparation for the implementation of IPSAS.

8. Of special consideration are the two organizations, the International Tribunal for the Former Yugoslavia and UNOPS, which have recorded a positive change in the status of their audit opinions in the biennium 2008-2009, which should be sustained. In the case of UNOPS, which had a long history of modified audit opinions, significant effort in the form of organizational reform and discipline over operations was necessary to bring about this improvement. Other organizations also facing modified audit opinions may need to give focused attention on problem areas to bring about the change back to an unqualified audit opinion.

9. Several organizations have maintained the excellent trend of unqualified audit opinions. However, the detailed long-form reports of organizations as well as the summaries provided in the present report provide an indication of the emerging risks each organization is facing. As steps are taken to address the Board's recommendations, this will assist in ensuring emerging risks do not become more significant and that the trend of unqualified audit opinions is maintained. However, the Board cautions that under IPSAS, all organizations will face the challenge of having to sustain their audit opinions (under a much stricter accounting framework), and for this to happen, the greatest risks with regard to financial statements need to be properly addressed.

10. By way of long-term comparison, for the financial period ended 31 December 2007, the Board issued nine modified reports with emphasis of matter paragraphs, compared to three reports with emphasis of matter paragraphs for the financial period ended 31 December 2005.

11. In the following sections, the Board provides extracts from each audit report that contained a modified audit opinion.

Extracts from modified reports with emphasis of matter paragraphs for period ended 31 December 2009

United Nations Relief and Works Agency for Palestine Refugees in the Near East

12. The Board highlighted, in chapter II of the UNRWA report, the impact on the control environment of the difficult operational conditions under which UNRWA

operates. The effect of restrictions on the free movement of goods, services, supplies and personnel into Gaza, as well as the January 2009 war in Gaza has led to a progressive weakening of the controls that can be exercised by UNRWA and its officials. UNRWA has a system of controls, rules, procedures and financial technical instructions which, under circumstances of the war and the blockade, are not fully or strictly complied with.

13. UNRWA justifies this treatment by its need to continue to deliver its services in accordance with its mandate. The Board is concerned that the operational conditions that exist in Gaza place a heightened risk on the proper functioning of certain internal controls. In addition to the matters highlighted through our sample testing in chapter II of the UNRWA report, other areas of non-compliance could be present, which have gone undetected.

United Nations High Commissioner for Refugees

14. In the Board's previous report on UNHCR,[1] the Board, among other matters, emphasized its concern over the recording and disclosures of non-expendable property as well as the need for UNHCR to address its end-of-service liabilities-related deficits. In the current year, the Board re-emphasized those matters as follows.

15. Note 16 to the financial statements of UNHCR discloses the value of non-expendable property. That amount is based on a database whose shortcomings have been highlighted in our previous reports. Although UNHCR made significant improvement compared to the past practice, the Board noted that there were many unresolved problems in the field. As part of its visits to UNHCR field offices, the Board found that the management of assets in the field still could be improved and that the non-expendable property database was still not fully reliable. For instance, UNHCR was not performing any reconciliation of assets it owned that were in use by its partners. The field offices that the Board audited were not receiving any inventory reports from the implementing partners that it could reconcile with the asset database.

16. As a result of the provision made in the accounts for end-of-service and post-retirement liabilities, including health insurance liabilities, the reserves and fund balances reflected a deficit of $159.9 million. This situation highlighted the necessity for UNHCR to identify funding to cover these liabilities.

United Nations Environment Programme

17. Note 13 to the financial statements of UNEP showed an adjustment of $7.9 million to the value of non-expendable property, based on the physical verification that the organization conducted. However, details in support of that amount were not provided. In the previous biennium, the Board's emphasis of matter also related to non-expendable property.

[1] *Official Records of the General Assembly, Sixty-fourth Session, Supplement No. 5E* (A/64/5/Add.5).

United Nations Population Fund

18. The Board qualified its opinion on the financial statements of UNFPA as it could not be satisfied regarding the completeness, accuracy and validity of nationally executed expenditure. Governments and non-governmental organizations incurred programme expenditure on behalf of UNFPA under the nationally executed expenditure modality. In respect of the biennium under review, the Board extended its review of the nationally executed expenditure processes and the results reflected in audit reports issued by the national execution auditors. For 2008, these audit reports reflected several shortcomings, specifically the absence of adequate supporting documentation for a significant portion of the programme expenditure incurred through the national execution modality. In addition, there were inadequate controls to ensure that the database which records audit reports was accurate and complete.

19. UNFPA followed up with national implementing partners to obtain the necessary documentation but at the time of reporting, that process had not yet been completed. UNFPA also introduced a new database in 2009 with enhanced monitoring capabilities. However, weaknesses remained. UNFPA was therefore unable to accurately assess the nationally executed expenditure as reflected in the 2009 audit reports. This has the effect of limiting the Board's procedures in relation to the audit of nationally executed expenditure. This matter was also raised by the Board in the previous biennium.

20. The Board then emphasized its opinion on UNFPA by stating that UNFPA is a decentralized organization which, during the biennium 2008-2009, took further steps to enhance its regionalization and field presence. Decentralization is usually coupled with delegation of authority to field-based committees and officials, and supported by transversal systems and standard policies to be implemented by all offices at all locations.

21. As part of its visits to four country offices during the biennium, the Board found cases of non-compliance with procedures, as well as incomplete use of transversal systems. However, the controls in two country offices were particularly weak, as indicated by the non-compliance mentioned throughout the Board's long-form report of UNFPA.

22. There is a higher risk and susceptibility to error in highly decentralized organizations, and the instances described in the Board's report suggest that urgent strengthening of field-based controls as well as regional and headquarters reviews is necessary to manage the exposure of UNFPA to risk. The internal auditors of UNFPA (the Division for Oversight Services) have also, based on their audits of the country offices, rated over 25 per cent of the country offices audited as "unsatisfactory", while 50 per cent of the audited country offices were rated as "partially satisfactory".

United Nations Human Settlements Programme

23. Note 15 to the financial statements of UN-Habitat showed adjustments of $1.6 million to the value of non-expendable property based on a physical verification that the organization conducted. However, details in support of this amount were not provided. In the previous biennium, the Board's emphasis of matter also related to non-expendable property.

International Criminal Tribunal for Rwanda

24. At the International Criminal Tribunal for Rwanda, the Board highlighted the following matters relating to the quality of management of non-expendable property:

(a) Based on the physical count conducted by the Tribunal, 1,625 items reflected incorrect locations in the non-expendable property database, while 339 items, valued at $465,279, could not be located;

(b) According to note 7 to the financial statements, of the amount of $20.02 million shown as non-expendable property, $1.15 million represented assets approved for write-off but were not yet disposed of, while $1.27 million of assets were pending approval for write-off;

(c) Out of a total of 11,665 non-expendable property items recorded in the asset database, 3,323 items did not have an indication of the status of their condition, while 557 items were not identified with bar codes.

United Nations Joint Staff Pension Fund

25. Amid the financial market turmoil and global recession, key indices and benchmarks experienced drops, and in some cases negative returns. The Fund, too, experienced a drop in its total investment portfolio, with significant realized and unrealized losses. There were a number of investments where a substantial portion of capital was lost and there remain investment positions with large unrealized losses. The realization of these losses will have a negative effect on the capital of the Fund.

26. The Board has commented on the need for investment strategies which minimize losses, within the context of the overall investment goals of the Fund. The Fund has disclosed a net profit on sale of the investments for the biennium of $412 million. The Board has commented on the need for enhanced description and disclosure in the financial statements of the underlying realized gains and losses, as well as the unrealized positions.

27. The Fund responded to the market volatility through its diversification and asset allocation strategy. It is also busy implementing a risk management manual and developing a risk management software tool.

II. Status of implementation of recommendations

28. Arising from each audit, the Board makes observations, considered the root causes and possible impacts, and then makes recommendations to address the gaps it observed. Each organization undertakes its own initiatives to address the Board's findings, sometimes linking this to senior management's performance goals, implementing internal databases to track progress, relying on their respective internal audit components to validate their efforts, and periodically reporting progress to internal audit committees and ultimately, governing bodies. During its biennial (or annual) audit cycles, the Board then considers management's efforts to address the recommendations.

29. Implementation of audit recommendations is an indicator of an organization's capacity (personnel, systems, funding, relationship with service providers) to bring

about improvement. The focus on audit recommendations by management with follow-up by internal auditors and the concern of legislative bodies is a crucial cycle to bring about change in controls and processes that were identified as needing improvement.

30. The Board has therefore highlighted separately in its report on each organization those of its recommendations for the financial periods ended 31 December 2007 and earlier that had not been fully implemented by early to mid-2010. All 16 organizations reported upon in the present report and listed in annex I had either not implemented some recommendations or were still implementing other recommendations.

31. The Board has summarized in an annex to each report the status at the time of its audit in 2010 of each organization's implementation of the Board's recommendations for the financial period ended 31 December 2007. A table summarizing the status of implementation of the recommendations by organizations is contained in annex II to the present report.

A. Implemented recommendations

32. Of the total of 518 recommendations made in the biennium 2006-2007 (2004-2005: 788 recommendations), 305 recommendations (59 per cent) had been fully implemented. This represents a decrease in the rate of implementation compared to the previous biennium, where 64 per cent of the 2004-2005 recommendations were fully implemented. Some organizations, as described in annex II, have recorded relatively high rates of implementation.

B. Recommendations under implementation

33. There were 169 recommendations (33 per cent) that had been partially implemented, compared to 250 recommendations (32 per cent) in the previous biennium. The Board has provided in each report comments about the efforts made by management, and the recommendations it had reiterated.

C. Recommendations not implemented

34. Sixteen recommendations (3 per cent) were not implemented, compared to 19 recommendations (2 per cent) in the previous biennium. A specific comment can be found in each report (where relevant) on this category of recommendations.

D. Recommendations overtaken by events

35. Twenty-eight recommendations (5 per cent) were overtaken by events, compared to 14 recommendations (2 per cent) in the previous biennium. The large increase is attributable mainly to UNOPS, where structural changes in the organization led to the Board reclassifying 18 recommendations as overtaken by events.

36. The Board has noted little change in the overall implementation rate of its recommendations, and encourages the organizations to take action to fully implement all the outstanding recommendations. In individual reports, the Board has highlighted, where applicable, specific reasons and challenges relating to delays in implementing certain recommendations. The Board invites the administrations to allocate specific responsibility for the implementation of all recommendations to individuals or divisions and to do so within a predetermined time frame in line with General Assembly resolution 47/211.

III. Matters of general concern

A. Status of implementation of International Public Sector Accounting Standards

37. In accordance with General Assembly resolution 61/233 A, regarding the adoption of the International Public Sector Accounting Standards, the Board assessed the status of implementation of those standards. The Board noted that all the entities delayed their implementation of IPSAS from January 2010 to January 2012, with the United Nations (and related entities) further delaying their implementation to January 2014. The Board was disappointed at the postponements and the delayed benefit of introducing a significant improvement in financial reporting.

38. In accordance with General Assembly resolution 61/233 A, and in response to the comments of the Advisory Committee on Administrative and Budgetary Questions in its report A/61/350, the Board undertook a gap analysis relating to the implementation of IPSAS, as well as new or upgraded enterprise resource management systems. The Advisory Committee on Administrative and Budgetary Questions commented on the desirability of such systems taking fully into account the detailed requirements of IPSAS.

39. As also discussed in the section on Financial Regulations and Rules, the Board emphasizes that one of the key benefits of IPSAS, is the value to be gained by users of comparable financial information. Adherence to a rigorous set of standards, together with the continued role of the United Nations Finance and Budget network in providing policy positions and guidelines, will help ensure that the benefits of IPSAS implementation are fully extracted.

40. As part of its consideration of the implementation of IPSAS projects, the Board considered the state of readiness of client organizations as reflected in their IPSAS plans. The Board has observed within the respective Finance units a generally high sense of awareness and growing preparation for IPSAS. The emphasis on skilled staff, change management, training, enterprise resource planning-readiness and high level support are all key ingredients of a successful implementation.

41. IPSAS poses a significant opportunity, but also a large risk to organizations if the implementation is not properly carried out. The flexibility for compliance embodied in United Nations system accounting standards will be replaced with stricter IPSAS rules, allowing less flexibility and demanding greater attention to record-keeping, the selection of accounting policies and data-gathering for

disclosures. These issues translate into challenges for organizations in future to maintain or improve the audit opinion given on their financial statements.

42. IPSAS is indeed a major reform initiative that will assist in addressing the key financial reporting needs of the organizations. In some cases, IPSAS may also herald the introduction of enterprise resource planning systems, which will provide the opportunity to improve or re-engineer a variety of internal processes. However, the Board records a note of caution that: (a) the timely implementation of IPSAS and enterprise resource planning systems will not alone fix the myriad of management challenges various organizations face; and (b) the implementation projects themselves will give rise to significant management challenges. In the ensuing paragraphs, the Board has highlighted some of its particular findings, and will continue to keep the matter under review, and provide its inputs where relevant.

Matters related to the individual entities

43. With respect to the United Nations, the Board noted that:

(a) The main reasons provided by the organization for the deferral of IPSAS implementation were: delays experienced in gaining approval for the necessary funding; the need to align IPSAS timetables with related enterprise resource planning system project timelines; the enterprise resource planning system for the Secretariat was expected to be deployed over the course of 2013; an improved appreciation of the scale and complexity of the work involved after completing a diagnosis of required procedures and system changes; problems in recruiting and retaining project staff; and competing reform initiatives limiting the ability of staff to engage on IPSAS issues;

(b) Some critical implementation steps were not in effect as at the time of the Board's audit (April 2010). In particular, the IPSAS project team was not fully staffed. Only six of eight members had been recruited;

(c) The detailed timetable and project plan for IPSAS implementation were not yet prepared and approved by the project steering committee; the timetable for the enterprise resource planning upgrades necessary to adopt IPSAS was also not approved.

44. At UNDP, the Board noted that there was an IPSAS implementation plan and progress was being made towards the implementation of IPSAS, such as the establishment of a new team dedicated to the implementation of IPSAS. UNDP has, during 2010, decided that all key IPSAS-related corporate decisions will now be deliberated by senior management in the Operations Group, chaired by the Associate Administrator.

45. At UNICEF, the Board noted that a project implementation team was established and a detailed policy development plan had been produced. However, the IPSAS communication and training plan had not been updated in line with the new timeline for full IPSAS adoption.

46. At UNHCR, the Board noted that a plan to implement IPSAS was in place. However, the milestones set on the plan were not met. UNHCR acknowledged that its working group was not originally composed of persons with the right skills and that the scope of the tasks to be completed to prepare for the transition to IPSAS was initially not correctly estimated.

47. The Board noted that UNEP and UN-Habitat had yet to establish a specific plan to prepare for the implementation of IPSAS and had not specifically taken into account the specific functionalities they used in Nairobi.

48. UNU explained that it was part of the partnership with UNDP in the implementation of an integrated global enterprise resource planning system (Atlas) which replaced the Financial, Budgetary and Personnel Management System, with effect from 1 January 2009. However, UNU has not developed its plan for the implementation of IPSAS and explained that it would be following the UNDP deadline of 2012 for the implementation of IPSAS.

49. At UNFPA, the Board noted that the IPSAS implementation plan did not have milestones to assist in the monitoring of the plan. The Board identified areas for improvement in the plan, including defining the roles of the internal units of UNFPA, and that the plan should fully consider the training needs after IPSAS implementation.

50. At UNRWA, the Board noted that the IPSAS implementation progress could be improved by coordination and communication between the departments dealing with IPSAS implementation and the involvement of the Department of Internal Oversight Services.

B. After-service health insurance and end-of-service liabilities

51. In accordance with General Assembly resolutions 60/255 and 61/264, the Administration was tasked to change the presentation of end-of-service and post-retirement liabilities from disclosure in the notes to the financial statements to accounting and presentation on the face of the financial statements.

52. All the organizations reported upon in the present report have, to varying degrees, provided or disclosed their liabilities for their staff who are eligible for various benefits either upon their end of service (compensation for unused vacation days, repatriation benefits, etc.) or after their end of service (after-service health insurance). The aggregate amount of these liabilities was estimated at $3.9 billion (2007: $4.1 billion) as at 31 December 2009. This included: $3.1 billion for the after-service health insurance, $225 million for leave liability, and $356 million for repatriation benefits. These values decreased compared to those as at 31 December 2007 mainly as a result of changes in the accounting policies and estimation methods of the organizations.

After-service health insurance

53. In its resolution 64/241, the General Assembly requested the Secretary-General to continue to validate the accrued liabilities for after-service health insurance with figures audited by the Board, and to include that information and the outcome of the validation in his report to the General Assembly at its sixty-seventh session.

54. As requested by the General Assembly, the Board reviewed the actuarial valuation of the accrued liabilities for after-service health insurance. The Board met this request within the limits of its own mandate as set out in article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, and in

accordance with the International Standards on Auditing. Consequently, the review by the Board consisted of checking:

(a) The suitability of the expert used for the actuarial valuations;

(b) The accurate and exhaustive nature of data submitted to the actuary by the organizations;

(c) The conformity of the valuation method with the prescriptions of the relevant resolutions of the General Assembly;

(d) The adequacy of the disclosure of the liabilities and related information with regard to the objective of giving a fair view of the financial position of the organizations.

Disclosure and funding

55. In organizations where the recording of liabilities led to negative reserves and funds balances, the Board was concerned that there was a risk that the organizations might not be in a financial position to fully meet their obligations with regard to end-of-service liabilities and post-retirement benefits as and when those liabilities become due considering that there was no approved funding plan. More generally, the Board noted that most organizations had still not made a decision regarding the funding of the Organization's future obligations towards its employees.

56. UNDP had only accrued $373 million for after-service health insurance, a shortfall of $57 million when compared to the latest actuarial valuation of $430 million. If UNDP had provided fully for the liability of $430 million, the Operational Reserve balance of $222 million as at 31 December 2009 would have decreased by 26 per cent to $165 million. UNDP had furthermore not made any provision for any end-of-service liabilities other than after-service health insurance.

57. UNICEF continued to disclose its end-of-service liabilities in the notes to the financial statements and not on the face of them. In addition, the census data used in computation of the UNICEF end-of-service liabilities were partly outdated.

Actuarial assumptions

58. There were changes in many of the actuarial assumptions used to value the after-service health insurance liabilities. In particular, in their previous valuation of the after-service health insurance liability, most organizations had used a discount rate of 5.5 per cent. The valuation of the after-service health insurance liability as at 31 December 2009 was based in most organizations on a discount rate of 6.0 per cent.

59. A discount rate is an interest rate used as a common financial practice to estimate the present value of an amount to be earned or lost at a future date. In other words, it represents the time value of money. As the after-service health insurance liability is composed of benefits that will be paid out by the organizations to their retired staff in the future, IPSAS, like most other accounting frameworks, requires that these amounts be "discounted" so that the reporting entity takes the present value of the future benefits as an estimate for its liability.

60. By construction, the higher (respectively the lower) the discount rate, the lower (respectively the higher) the present value of future amounts. Hence, all

things being equal, the increase in the discount rate used by the organizations resulted in a lower after-service health insurance liability compared to the previous financial period. In this regard, the notes to the financial statements of most organizations indicates that a 1 per cent increase in the discount rate would result in a significant decrease in the after-service health insurance liability.

61. Like most of the methodological elements used for the actuarial valuation of the after-service health insurance liability, the discount rate was selected by the United Nations on behalf of all the entities that participate to the same health plans and for which the United Nations coordinated the valuation exercise. According to the United Nations, the objective of selecting a discount rate when valuing liabilities for end-of-service benefits was to measure the single amount that, if invested in a portfolio of high-quality debt instruments, would provide the necessary future cash flow to pay the accrued benefits when due. The United Nations has historically established the discount rate assumption by referring to rates of return on available high-quality, fixed-income investments with cash flow that match the timing and amount of expected benefit payments. The rates of return used as a reference by the United Nations have been those of high-quality corporate bonds.

62. The Board acknowledges that this methodology is compliant with IPSAS 25, yet makes the following comments for consideration in the discussion on funding these liabilities:

(a) The increase in the discount rate does not reflect the trend in interest rates, which have generally tended to decrease over the recent period. This increase results in the United Nations having decided not to increase the discount rate for the previous valuation, although the application of the methodology described above would have resulted in an increase from 5.5 per cent to 6.5 per cent at that time. Considering the uncertainties on the prescriptions of IPSAS (IPSAS 25 had not been adopted yet), the United Nations had, in 2006-2007, conservatively decided to maintain the 5.5 per cent rate. Had it chosen to raise the rate to 6.5 per cent at that time, the same rate would have then decreased instead of increased for the most recent valuation — which would have been consistent with the economic environment;

(b) The discount rate is but one example of the high level of uncertainty inherent in the actuarial valuation of a liability. While compliant with the accounting standards, this valuation is only an estimate of the actual value of the liability. Consequently, the United Nations may wish not to regard this as the absolute reference. Valuations based on standards other than accounting ones may yield different results. In this regard, the Board wishes to underline that a financial valuation of the funding needs (or "funding valuation") would result in a different value than the accounting valuation which, by construction, is generally more conservative. This is one of the reasons why the United Nations has advised that the funding requirements of after-service health insurance and other end-of-service liabilities are only a portion of the Organization's liability as valued according to the accounting standards.

Annual leave liability

63. Whereas the annual leave liability had previously been estimated using the current-cost methodology, most organizations changed their accounting policy and calculated the annual leave liability based on an actuarial valuation performed by an

external consultant. The organizations justified the change in the valuation method of annual leave by reference to IPSAS 25, although no mention of IPSAS is made in the financial statements. This change is considered by the organizations as an enhancement to the financial information which, while compliant with the United Nations system accounting standards, is a step towards the full implementation of IPSAS. The Board took that fact into consideration and checked whether this new valuation method would be compliant with IPSAS once it was fully applicable to the various organizations.

64. The Board concluded that the annual leave liability calculated through the actuarial valuation was not compliant with IPSAS 25 as it: (a) included future days to be accumulated; and (b) was a discounted amount. The Board thus proposed that organizations consider revising their policy for the valuation of leave liabilities during their implementation of IPSAS.

C. Financial Regulations and Rules

65. In 2007, in its resolution 62/208 on the triennial comprehensive policy review of operational activities for development of the United Nations system, the General Assembly explicitly encouraged: the continuing development of harmonized approaches such as the adoption of the International Public Sector Accounting Standards, the standardization of audit definitions and ratings, and the harmonized approach to cash transfers, called upon the United Nations funds, programmes and specialized agencies to further harmonize and simplify their business practices, and recognized the importance of harmonizing human resources management, enterprise resource planning systems, finance, administration, procurement, security, information technology, telecommunications, travel and banking.

66. While there could be other areas of harmonization of business practices, process and procedures in the United Nations system organizations, the Board noted inconsistencies in matters that affect the financial statements of the organizations, entrenched through or unchallenged by the financial regulations and rules of the respective entities. The Board noted the following, among others:

(a) Paragraph 7 and 8 of the United Nations system accounting standards prescribe the format and layout of financial statements of United Nations entities. The Board, however, noted that the layout of the financial statements of the United Nations entities differed from entity to entity;

(b) The Board noted that United Nations entities applied inconsistent policies with regard to the treatment of similar transactions. For example, inventory, land and buildings and revenue are treated in opposite ways by organizations reporting under the same accounting framework. Elsewhere in the report, the Board noted the inconsistent treatment of funds advanced to implementing partners which were regarded as operating funds outstanding (e.g., at UNFPA and UNDP) but treated as expenses at UNICEF and UNHCR;

(c) The United Nations entities have different dates for the submission of financial statements for audits. These range from either three months or four months, and therefore impact the year-end closure and reconciliation procedures, as well as the time available for audit;

(d) United Nations entities receive contributions that are used to support operations and to implement programmes. The Board noted that United Nations entities apply different accounting treatment for the same contribution, and, in some instances, the same contribution from the same donor, with the same conditions. For example, UNDP recognizes contributions only on the receipt of cash, while other entities such as the United Nations, UNRWA, UNFPA and UNHCR recognize some of their contributions in the accounts on signature of the agreement with donors.

67. The Board is concerned that the inconsistencies have the effect that important parallels cannot be drawn by comparing the financial statements of the United Nations entities. Also, divergent rules may result in differentiation in entities to obtain competitive advantage in sourcing funds from donors.

68. The Board is aware of the work under way to harmonize the rules and regulations of certain United Nations entities as well as the IPSAS project implementation planned for the next two to four years. The Board is of the view that the inconsistencies in the rules and regulations should be considered in parallel with the implementation of the new IPSAS accounting standards.

D. National execution modality

69. In line with General Assembly resolution 62/208, nationally executed expenditure is a modality whereby funds are advanced to implementing partners (Governments and non-governmental organizations), with the implementing partner submitting expenditure reports and audit reports to United Nations organizations to account for how funds were expended.

70. Several United Nations funds and programmes, for example, UNDP, UNFPA and UNHCR, utilized the nationally executed expenditure modality and as a result, implementing partners and recipient countries incurred programme expenditure in accordance with the country programmes. The Board noted that UNICEF applied a modality similar to nationally executed expenditure, where UNICEF provided Governments with direct financial support, called cash assistance to Governments.

71. The Board noted differences in the application of the nationally executed expenditure modality among entities in that the entities apply different rules and procedures in the management of the nationally executed expenditure audit process, including the amount of expenditure subject to nationally executed expenditure audit by third-party auditors and the timelines for the receipt of nationally executed expenditure audit reports.

72. At UNICEF, cash assistance to Governments does not require mandatory audits similar to the nationally executed expenditure audit process. Also, cash assistance to Governments is recognized as expenditure by UNICEF at the transfer of funds, whereas nationally executed expenditure advances are only recognized as expenditure by the entity on submission by the implementing partner of a report supporting how funds were utilized. There is thus the possibility of less assurance being provided by this process alone than that provided through the audit process.

73. According to the UNICEF basic cooperation agreement with Governments, Government partners are required to submit annual audited financial statements to UNICEF. From the 15 country offices sampled, there was no evidence that audited financial statements were received for the period under review.

74. The Board noted significant weaknesses in the nationally executed expenditure audit process and results at UNFPA. At UNHCR, the Board had qualified its audit opinion in respect of the low rate of audit certificates for national execution for the year ended 31 December 2008.[1] However, in the current period, the Board had recorded improvements.

75. The Board's findings with regard to nationally executed expenditure and cash assistance to Government modalities reflect that there is a need to ensure consistency in approach. The Board notes the initiative to implement a harmonized approach to cash transfers, and will keep this initiative under review.

E. Procurement and contract management

Governance

76. At the United Nations, the Board found several issues regarding procurement matters in special political missions of modest size. Most of these issues derive from the imprecise legal and procedural framework applicable to the support of the special political missions by the Secretariat headquarters. As a result, these missions did not have a proper delegation of procurement authority, but nevertheless engaged in procurement activities. They were provided with limited support from the Secretariat headquarters in this regard because of a gap in coordination among the various departments involved.

Compliance with procurement rules

77. At UN-Habitat, UNU and UNEP, the Board noted that the value of purchase orders placed by officers was in excess of their delegation of procurement authority.

78. At UNFPA, the Board noted that there were instances where some bids did not comply with the UNFPA policies and procedures with regard to the bidding procedures and maintenance of documents that support procurement activities.

79. At UNRWA, two contracts did not comply with the Agency's policies and procedures.

80. At UNICEF, the Board noted a number of deficiencies in relation to competitive bidding. In particular, written solicitation documents were sent to only two suppliers, which was not in line with the requirements of the UNICEF Supply Manual. In addition, in some procurement cases, the lowest bid principle was not followed and there were no adequate justifications provided.

81. At UNDP, the Board noted that in the few country offices that it audited, the country offices were not systemically checking prospective vendors against the list of suppliers prohibited by the Security Council, even though UNDP had developed controls to assess and monitor prospective vendors against the list of suppliers prohibited by the Security Council under the terms of Council resolution 1267 (1999).

Procurement planning

82. At UNDP, the Board noted that not all country offices prepared procurement plans.

83. At UNRWA, the Board noted that there were long lead times in the procurement process and there were no processes to review and follow up long-outstanding purchase orders.

84. At the International Criminal Tribunal for Rwanda, a number of deficiencies in procurement activities were noted, including: (a) two out of three approvals by the Headquarters Committee on Contracts were on an ex post facto basis; (b) untimely and incomplete acquisition plans; (c) lack of timeliness in conducting vendor performance evaluation; and (d) extension of some contracts without a vendor performance evaluation.

85. At the International Tribunal for the Former Yugoslavia, a number of deficiencies in procurement activities were noted, including: (a) delays in the approval of Local Committee on Contracts meeting minutes; (b) a lack of adequate supporting documents, including evaluation forms for registration of local vendors; and (c) inadequate monitoring of the clause on the termination of contracts.

Vendor database management

86. At UNFPA, the Board noted that: (a) some country offices did not maintain adequate documents with regards to the registration of vendors; and (b) some vendor identification numbers were duplicated. UNFPA has subsequently outsourced its vendor registration process.

87. At UNOPS, the Board noted that: (a) there was inadequate segregation of duties in the function of receiving and evaluation of vendor applications and registration of suppliers in the UNOPS vendor database; (b) the Vendor Review Committee was established in early 2009, however, as at 11 November 2009, the Committee had not met or performed any of its functions; and (c) there were delays in the lead times between the receipt of vendor application forms and the review of applications and registration of vendors in the database.

88. At UN-Habitat and UNEP, the majority of vendors in the vendor database had not been formally registered.

F. Non-expendable property

89. Non-expendable property is defined differently across the United Nations and its funds and programmes. However, from its review of the notes to the financial statements of the United Nations and its funds and programmes, the Board estimated that the aggregate value of non-expendable property disclosed by entities totalled approximately $1.4 billion as at 31 December 2009 (2007: $1.2 billion). As many organizations undertake physical verifications and valuations during their preparation for IPSAS, it is likely that the disclosed amounts will change materially.

90. The Board reviewed the existing non-expendable property arrangement across entities and noted the following examples of deficiencies: (a) the inventory reports included items that could not be located or were obsolete; (b) there were inadequate physical inventory count procedures or physical counts were not always performed; (c) there were discrepancies between items physically counted and the items in the fixed asset registers; (d) some entities maintained manual fixed asset registers, which were prone to error and by design had weak data-access control; (e) adjustments were made to fixed asset registers without supporting documents; (f) reconciliation was

not always performed between physical inventory and the fixed asset register; (g) items were not always included in the inventory report; and (h) inadequate asset management procedures, such as tagging of individual assets and properly recording details of assets in the fixed asset registers.

91. These deficiencies, most of which have been pointed out by the Board for several bienniums, are important to address, considering that the custody of assets is an important duty of officials and that accounting treatment for assets will be profoundly changed with the implementation of IPSAS.

92. The introduction of IPSAS should also be an opportunity for the organizations to adopt harmonized rules for the management and accounting of non-expendable property. The Board indeed found that the existing rules diverged from one organization to the other.

G. Expendable property

93. During the biennium, arising from previous audit findings, in recognition of the sometimes significant expenditure represented by expendable property and in anticipation of the accounting and disclosure needs under IPSAS, the Board extended its review to expendable property and highlights some of its findings below.

94. At UNFPA, the value of expendable property for Global Contraceptive Commodity Programme stocks was not disclosed on the face of the financial statements as required by the Financial Regulations and Rules even though it was disclosed in the notes to the financial statements. The value of expendable property disclosed by UNFPA was understated as it did not include stock held at the regional and subregional centres and at country offices.

95. UNRWA recognized expendable property for the first time on its balance sheet. The Board noted the effort made by UNRWA; however, the efforts are subject to refinement and improvement as the International Public Sector Accounting Standards become applicable. The Board noted that there were instances where stock was issued without supporting documents, instances of inadequate inventory management and discrepancies between physical inventory and the inventory recorded in the system.

96. At UNICEF, the Board noted untimely submission of reports on stock nearing expiration to the Property Survey Board; items held in stock for more than six months to five years; and that some warehouses had unsatisfactory storage conditions which could affect the quality of programme supplies.

97. At several entities, the value of expendable property was not disclosed on the face of the financial statements and in the notes to the financial statements. However, the value of expendable property utilized or on hand is not always material for some organizations.

98. The Board has made recommendations to address these deficiencies, considering that the valuation of expendable property and its accounting treatment will be changed with the implementation of IPSAS.

99. The introduction of IPSAS should also be an opportunity for the organizations to adopt harmonized rules for the management and accounting of expendable

property. The Board indeed found that the existing rules diverged from one organization to the other.

IV. Significant issues — extracts from reports of the Board

A. Financial statements matters

100. Financial statements matters include weaknesses identified in the audit of statement of income and expenditure; statement of assets, liabilities and reserves and fund balances; cash flow statement; and financial statements disclosures.

Unliquidated obligations

101. The Board noted several anomalies with regard to the administration of unliquidated obligations: (a) there were instances of high cancellation of prior-period unliquidated obligations; (b) there were instances where obligations were raised without valid obligating documents; and (c) there were instances where unliquidated obligations were not reviewed or certified as required by the Financial Regulations and Rules.

Long-outstanding receivables and payables

102. The Board noted several instances where there were long-outstanding receivables and payables, some of which related to legacy system issues. In some instances, this was attributable to a lack of ageing data to properly follow up. In certain instances, there were no policies or mechanisms to consider impairment of long-outstanding receivables.

103. At UNEP, the amount of the unpaid pledges to the Multilateral Fund for the Implementation of the Montreal Protocol on Substances that Deplete the Ozone Layer was $183.9 million. This represented more than 72 per cent of pledges for 2008-2009 ($254.5 million). Unpaid pledges of more than $117 million were more than five years old. The Board recommended that UNEP consider formulating an accounting policy for the treatment of long-outstanding pledges.

Reconciliations between the general ledger and sub-ledgers

104. At UNJSPF, the Board noted that the Fund did not perform regular reconciliations between the amount it paid to the United Nations and the amount the United Nations paid on behalf of the Fund. Furthermore, the Board noted differences between the general ledger and the accounts payable sub-ledger and that no regular reconciliations were performed between the two modules.

Contributions from the regular budget

105. At the United Nations Office on Drugs and Crime, UNEP and UN-Habitat, the statements of income and expenditure did not include resources from the United Nations regular budget. The Board considered that they should be incorporated in the statement of income and expenditure.

B. Trust funds

106. At the United Nations, UNDP, UNEP and UNFPA, the Board has highlighted cases of trust funds with balances but with minimal or no expenditure throughout the biennium. The Board was concerned that there may be a reputational risk that the above-mentioned organizations may be perceived as not being able to deliver on projects agreed to with the donors, or may be in breach of commitments to donors.

C. Results-based budgeting and management

107. The Advisory Committee on Administrative and Budgetary Questions, in its report (A/63/474), has requested the Board to continue to place emphasis on the review of results-based budgeting and results-based management.

108. The Board has noted a variety of issues across organizations. These are: (a) management workplans were not always submitted on time and were not always approved; (b) the indicators of achievement were not specific, measurable, realistic and timely; (c) the Board could not verify some of the achievements, as not all the information in the performance reports was backed up by documentary evidence; and (d) sometimes the relationship between the expected accomplishment and the corresponding objective was not clear.

109. In respect of the United Nations (Vol. I), the Board is of the view that the current process is a long way from allowing improvement in the effectiveness and efficiency of the Organization. The expectations behind the decision to develop results-based budgeting do not appear to have been matched by the process as implemented within the United Nations.

D. Treasury and cash management

110. The United Nations and several of its funds and programmes (including UNJSPF) managed material short-term or medium-term financial assets. Investment balances, including cash and cash pool, amounted to approximately $18 billion as at 31 December 2009, compared to $15 billion as at 31 December 2007 (an increase of 20 per cent). Taking UNJSPF into consideration, the aggregate investment balances, including cash and cash pool, would amount to $51 billion as at 31 December 2009, compared to $45 billion as at 31 December 2007 (an increase of 13 per cent).

Table 2
Cash and investment holding in the United Nations and its funds and programmes
(Thousands of United States dollars)

Organization	Cash and term deposits		Investments		Cash pools		Total	
	2009	2007	2009	2007	2009	2007	2009	2007
United Nations (Vol. I)	53 525	72 311	76 773	68 129	3 899 224	2 730 863	4 029 522	2 871 303
International Trade Centre UNCTAD/WTO	9	4	—	—	55 417	44 938	55 426	44 942
UNU	41 566	35 902	274 091	321 131	14 491	8 759	330 148	365 792
UNDP	1 465 631	1 205 175	6 345 020	5 575 648	—	—	7 810 651	6 780 823
UNICEF	2 138 491	2 229 829	838 952	445 000	—	—	2 977 443	2 674 829
UNRWA	337 082	212 046	—	—	—	—	337 082	212 046
UNITAR	9	10	—	—	14 053	12 896	14 062	12 906
UNHCR	382 615	342 127	—	—	—	—	382 615	342 127
UNEP	6 786	35 032	—	—	368 560	255 514	375 346	290 546
UNFPA	12 358	820	578 423	593 742	—	—	590 781	594 562
UN-Habitat	1 888	22 858	—	—	207 726	151 301	209 614	174 159
United Nations Office on Drugs and Crime	29 568	18 153	245 824	195 722	—	—	275 392	213 875
UNOPS	444 070	50 118	—	—	—	—	444 070	50 118
International Criminal Tribunal for Rwanda	1 544	1 118	—	—	53 170	19 202	54 714	20 320
International Tribunal for the Former Yugoslavia	9 636	3 202	—	—	50 067	34 991	59 703	38 193
Total	**4 924 778**	**4 228 705**	**8 359 083**	**7 199 372**	**4 662 708**	**3 258 464**	**17 946 569**	**14 686 541**

111. The cash and investment holdings reflected above do not include the significant portfolio resources (approximately $33 billion) of UNJSPF, as well as the balances of other organizations such as the United Nations Escrow Account, the United Nations Compensation Commission, the United Nations Framework Convention on Climate Change, the United Nations Convention to Combat Desertification and the UNRWA Staff Provident Fund, which are not the subject of the present report.

112. Table 2 indicates that there is approximately $18 billion of available cash resources that were held as either investments or cash. The balances are attributable to various reasons such as the contributions received in advance (i.e., before the activities are due to be carried out), working capital funds, cash held while implementation activities were under way, and/or prior-period unused (cash) resources, and/or surpluses.

113. The management of cash resources is a significant responsibility of the administrations. The administrations have in some cases established specialized treasury functions to support their various needs, and even to support the cash management of other organizations. As cash balances grow, and the number of accounts, transaction and payment currencies increases, so do the needs for systems

and trained personnel, so that risks are properly managed and the returns on cash resources are maximized. The Board uses this opportunity to present the global picture of the cash balances, and will keep this under review in future assignments.

114. The Board noted that the amount for cash and term deposits, investments and cash pools is based on different accounting rules and conventions and should thus be considered only an estimate of the total value.

Cash management

115. At the United Nations, the Board noted that the technical characteristics of the authorized investment tools were described; however, the link between the composition of the portfolio, its liquidity, its profitability and its exposure to various risks identified was not documented. Furthermore, the Board found that only the limits setting the maximum total amount of investments to be carried out with a given counterparty were monitored by the Administration. All other limits defined by the United Nations investment management guidelines were not subject to any monitoring process. There was therefore a risk of exceeding the limits and of not complying with the risk management policy.

116. At UNDP, the Board tabulated the balances of the UNDP cash and cash equivalents over five bienniums and noted that from 2000-2001 to 2008-2009, the cash and investment balances increased by 267 per cent, from $1.9 billion to $7 billion. During that period, cash on hand as a percentage of programme expenditure increased from 47 per cent to 81 per cent, while cash on hand as a percentage of total contributions increased from 39 per cent to 68 per cent. The Board interpreted this data to mean that: (a) the rate of spending on programme had not kept pace with the rate of inflows of contributions; (b) cash and investments had now grown to the extent that they represented almost two years of UNDP programme expenditure levels; and (c) UNDP had greater certainty about funding for future activities as cash contributions were already in hand, and were growing.

117. At UNOPS, the Board identified weaknesses in the management of petty cash vouchers and that in the closure of the imprest accounts, some items were not fully reconciled.

118. At a UN-Habitat regional office, the Board found instances of failure to comply with the regulations on cash withdrawals and of the signing of banking documents.

119. The bank account of a United Nations Office on Drugs and Crime country office reflected a balance of $27 million as at 31 December 2009, which represented 92 per cent of the United Nations Office on Drugs and Crime cash and term deposits. Official documents produced to justify the setting up and conditions of use of this bank account were not adequate to establish that the United Nations Office on Drugs and Crime was complying with the United Nations rules for the use and management of this account, particularly in relation to safeguarding itself against the financial risk associated with the economic conditions and legislative constraints imposed by the host country.

120. At UNICEF, as at 31 December 2009, a total amount of $507.86 million of cash transfers remained outstanding, of which amounts totalling $4.51 million had been outstanding for more than nine months. In addition, at some field offices,

acknowledgement receipts for cash transfers were not obtained from implementing partners.

Bank reconciliation processes

121. At UNDP, the Board noted an improvement in the performance of monthly bank reconciliations during its visits to country offices. However, some country offices had long-outstanding reconciling items, and in some country offices there was no segregation of duties in the performance of bank reconciliations.

122. At UNRWA, 18 bank accounts for the month of December 2009 were not reviewed by senior management.

123. At UNFPA, no bank reconciliations were performed for a local currency bank account and there were also long-outstanding reconciling items and unapplied deposits.

124. At UNHCR, the Board noted 12 accounts that had unexplained or uncorrected differences amounting to $38,100 between the bank confirmation statement as at 31 December 2009 and the closing balance in the general ledger of UNHCR.

E. Programme and project management

125. Within UNEP, the Board noted that different accounting methods for payments made to implementing partners were used. The Board considers that these methods should be harmonized.

126. At the United Nations Office on Drugs and Crime, the Board noted amounts totalling $139 million that were paid to UNDP to implement nationally executed projects on behalf of the Office. However, a reconciliation of the records with UNDP indicated a discrepancy of $2.5 million. The Board has recommended that the United Nations Office on Drugs and Crime address this issue urgently.

127. At UNU, the Board noted that a project management manual was not established to monitor project implementation and some of the project workplans did not specify activities scheduled and staff travel plans.

128. At UNDP, the Board noted that there were advances for projects amounting to $13.8 million that had been outstanding for longer than six months, indicating the slow liquidation of advances.

129. Payroll costs consume a large part of the resources of the United Nations. Human resources are the mechanism through which the work and programme of the United Nations is delivered. The Board continued to review some relevant aspects of human resource management, the details of which can be found in the audit report of each entity.

F. Human resources management

130. The Board continued to note that vacancies were not always filled in a timely manner. This finding was quite prevalent, and has also been raised by the Board in the context of its audit on peacekeeping.

131. The Board also noted that staff performance evaluation reports were not always prepared and completed within deadlines.

132. At UNDP, UNFPA and UNOPS, the Board noted some shortcomings in the control and process over leave administration and management such as the maintenance of manual leave records.

G. Information technology

133. The Board performed information technology general controls review for UNDP, UNRWA and UNJSPF. As UNDP, UNFPA and UNOPS share the same enterprise resource planning system (Atlas), the information technology general controls review performed at UNDP covered tests for all three entities.

134. At UNDP, the Board noted that the information technology security policy was in draft and was not approved and that there were shortcomings in the UNDP change control processes and user account management processes. The Board also noted inadequate physical access and environmental controls to the server rooms at country offices. UNDP informed the Board that it had taken several remediation actions.

135. At UNJSPF, the Board performed a general controls review of the information technology controls around the benefits payments payroll (Pensys) and the general ledger (Lawson) systems and noted shortcomings in the Fund's user account management procedures and change control procedures.

136. At UNRWA, the Board noted that: (a) the information system security policy was not approved; (b) there was inadequate segregation of duties in the information technology section, where programmers had unrestricted access to the production environment and could make programme changes in the production environment without the changes being independently reviewed; (c) UNRWA had not fully implemented the Board's recommendation to develop a comprehensive disaster recovery and business continuity plan and communicate the plan to all personnel and to test, review and update its disaster recovery plan; and (d) the Board had made several observations about weaknesses in the management of user accounts, and the controls over server rooms.

H. Transport and travel management

137. There are different rules governing travel management between the United Nations and its funds and programmes. The Board noted weaknesses in travel management across the entities as follows: (a) travel requests were not always submitted within the prescribed time before travel, sometimes were submitted after the travel date; (b) travel claims were not always submitted after the completion date of travel; and (c) in certain instances, there was a lack of monitoring of travel advances leading to a high level of long-outstanding receivables.

I. Internal audit functions

138. The internal audit functions of the United Nations and related entities are performed by the Office of Internal Oversight Services (OIOS) and most funds and programmes have their own in-house internal audit functions.

Coordination

139. In order to improve audit coverage and avoid duplication of audit effort, the Board coordinated with the respective internal audit function units of the United Nations and its funds and programmes, to ensure effective use of audit resources. In the case of UNDP and UNJSPF, this led to the Board reviewing its scope of planned audit activities by placing reliance on certain work performed by the respective internal audit function units. Particularly, in the case of UNJSPF, the Board sought to enhance its coverage of risk areas by reviewing the results of the audits of the investment management and compliance with internal policy and the financial reporting process. In the case of UNDP, the Board limited its procedure in the area of the Global Payroll (in Copenhagen) as a result of the audit that had been undertaken by the Office of Audit and Investigations (UNDP Global Payroll, benefits and entitlement function).

140. These examples illustrate the tangible benefit of the improvements the Board continues to note in the services rendered by internal audit departments, and the application of the International Standards on Auditing, which provide for the assessment by the external auditors, and ultimately reliance on the work of the internal auditors.

Internal audit coverage

141. At UNEP, the United Nations Office on Drugs and Crime, the International Tribunal for the Former Yugoslavia, International Criminal Tribunal for Rwanda, UN-Habitat, UNHCR and UNRWA, the Board noted that the internal audit plans were not fully completed, which was attributable mainly to vacancies in the respective internal audit units. The Board is concerned that this reduces audit coverage of areas that were identified as high risk by the respective internal audit units.

142. The Board noted that UNU and UNITAR did not have their own internal audit function and relies on OIOS to perform this service. However, the Board noted that OIOS did not carry out any audits for the period under review. At UNU, this was because of the funding agreement between UNU and OIOS for the internal audit service, which was pending. The Board was informed that OIOS was proposing a change in the funding mechanism through creating a post to be jointly funded by UNU and other United Nations training institutions.

Coverage of implementation of International Public Sector Accounting Standards

143. The Board emphasizes the special knowledge of organizations that internal auditors have that can be mobilized in coming years during the implementation of IPSAS. IPSAS projects face implementation risks, and the proper review of project risk management activities by internal audit and is very relevant. Furthermore, as organizations make enterprise resource planning-related design decisions, or

consider policy options for accounting, the internal auditors are able to provide an internal critical sounding board for the benefit of management.

J. Other matters relating to specific organizations

International Tribunal for the Former Yugoslavia

144. The Tribunal was unable to achieve the objectives of the completion strategy as set out in Security Council resolution 1503 (2003), namely, to complete all trial activities at the first instance by the end of 2008, and all its work in 2010. However, in its resolutions 1877 (2009) and 1900 (2009), the Security Council took note of the Tribunal's assessment that it would not be in a position to complete all its work in 2010. According to note 8 of the financial statements, all trial activities were expected to be completed by September 2012, and the completion of substantially all appeals was expected by mid-2013. In addition, as per the latest judicial calendar updated in March 2010 by the Tribunal, all appeal activities were projected to be completed by June 2014.

International Criminal Tribunal for Rwanda

145. The Tribunal was unable to achieve the objectives of the completion strategy as set out in Security Council resolution 1503 (2003), namely, to complete all trial activities at the first instance by the end of 2008, and all its work in 2010. According to the latest report on the completion strategy of the International Criminal Tribunal for Rwanda (S/2009/587), the majority of the trial work was expected to be completed by the end of 2010, with some spillovers into 2011. In addition, as per the latest judicial calendar updated in March 2010 by the Tribunal, all appeal activities were projected to be completed by the end of 2013.

Deficit in reserves and fund balances

146. At the International Criminal Tribunal for Rwanda, the reserves and fund balances showed a deficit of $8.79 million for the period under review, compared with a deficit of $38.48 million for the preceding biennium, a reduction of $29.69 million in the deficit.

(*Signed*) Terence **Nombembe**
Auditor-General of South Africa
Chair, United Nations Board of Auditors

(*Signed*) **Liu** Jiayi
Auditor-General of China

(*Signed*) Didier **Migaud**
First President of the Court of Accounts of France

30 June 2010

Annex I

Organizations reported on for the financial period ended 31 December 2009

Biennial reports	*Lead auditor*
United Nations[a]	France
International Trade Centre UNCTAD/WTO[b]	France
United Nations University[c]	China
United Nations Development Programme[d]	South Africa
United Nations Children's Fund[e]	China
United Nations Relief and Works Agency for Palestine Refugees in the Near East[f]	South Africa
United Nations Institute for Training and Research[g]	China
United Nations Environment Programme[h]	France
United Nations Population Fund[i]	South Africa
United Nations Human Settlements Programme[j]	France
United Nations Office on Drugs and Crime[k]	France
United Nations Office for Project Services[l]	South Africa
International Criminal Tribunal for the Prosecution of Persons Responsible for Genocide and Other Serious Violations of International Humanitarian Law Committed in the Territory of Rwanda and Rwandan Citizens Responsible for Genocide and Other Such Violations Committed in the Territory of Neighbouring States between 1 January and 31 December 1994[m]	China
International Tribunal for the Prosecution of Persons Responsible for Serious Violations of International Humanitarian Law Committed in the Territory of the Former Yugoslavia since 1991[n]	China
The Board also examined the accounts of the United Nations Joint Staff Pension Fund, and the audit report thereon will be included in the report of the United Nations Joint Staff Pension Board[o]	South Africa
Annual report	
Voluntary funds administered by the United Nations High Commissioner for Refugees[p]	France

(Footnotes on following page)

(Footnotes to annex I)

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[a] *Official Records of the General Assembly, Sixty-fifth Session, Supplement No. 5* (A/65/5 (Vol. I)). In addition, the Board reported on the capital master plan, ibid., *Supplement No. 5* (A/65/5 (Vol. V)).

[b] Ibid., *Supplement No. 5* (A/65/5 (Vol. III)).

[c] Ibid., *Supplement No. 5* (A/65/5 (Vol. IV)).

[d] Ibid., *Supplement No. 5A* (A/65/5/Add.1).

[e] Ibid., *Supplement No. 5B* (A/65/5/Add.2).

[f] Ibid., *Supplement No. 5C* (A/65/5/Add.3).

[g] Ibid., *Supplement No. 5D* (A/65/5/Add.4).

[h] Ibid., *Supplement No. 5F* (A/65/5/Add.6).

[i] Ibid., *Supplement No. 5G* (A/65/5/Add.7).

[j] Ibid., *Supplement No. 5H* (A/65/5/Add.8).

[k] Ibid., *Supplement No. 5I* (A/65/5/Add.9). The Board audits and reports on the Fund of the United Nations International Drug Control Programme, which is managed by the United Nations Office on Drugs and Crime.

[l] Ibid., *Supplement No. 5J* (A/65/5/Add.10).

[m] Ibid., *Supplement No. 5K* (A/65/5/Add.11).

[n] Ibid., *Supplement No. 5L* (A/65/5/Add.12).

[o] Ibid., *Supplement No. 9* (A/65/9).

[p] Ibid., *Supplement No. 5E* (A/65/5/Add.5).

Annex II

Status of implementation of recommendations made up to 31 December 2007, by organization

Organization	Number of recommendations	Fully implemented	Under implementation		Not implemented		Overtaken by events
			Prior to 2006-2007	During 2006-2007	Prior to 2006-2007	During 2006-2007	
United Nations	70	38	2	24	0	3	3
International Trade Centre UNCTAD/WTO	4	1	1	2	0	0	0
United Nations University	19	11	0	5	0	2	1
United Nations Development Programme	82	53	4	21	0	2	2
United Nations Children's Fund	38	26	0	12	0	0	0
United Nations Relief and Works Agency for Palestine Refugees in the Near East	31	12	9	9	0	0	1
United Nations Institute for Training and Research	12	10	0	1	0	0	1
Office of the United Nations High Commissioner for Refugees[a]	19	8	1	10	0	1	0
United Nations Environment Programme	11	7	1	3	0	0	0
United Nations Population Fund	59	29	4	23	0	3	0
United Nations Human Settlements Programme	17	13	0	3	1	0	0
United Nations Office on Drugs and Crime	19	11	0	5	0	3	0
International Criminal Tribunal for Rwanda	8	5	1	2	0	0	0
International Tribunal for the Former Yugoslavia	7	4	0	2	0	0	1
United Nations Joint Staff Pension Fund	27	10	2	13	1	0	1
United Nations Office for Project Services	95	67	4	6	0	0	18
Total	**518**	**305**	**28**	**141**	**2**	**14**	**28**
Percentage of total	**100**	**59**	**5**	**27**	**1**	**3**	**5**

[a] The Office of the United Nations High Commissioner for Refugees has an annual financial cycle and therefore the figures reported are for recommendations made up to 31 December 2008.